MACROECONOMICS
FOR WARTIME UKRAINE

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RUSSIAN AGGRESSION

The scale of destruction and atrocities not seen in Europe since World War II

Bucha, a suburb of Kyiv (sources: New York Times and Kyiv Independent)
Russia occupied 125,000 km² of Ukraine's territory. This is 20% of the country's area.

Just remember this when you offer Ukraine to surrender.

(source: VoxUkraine)
RUSSIAN AGGRESSION

Ukraine’s GDP falls by 30-50% in 2022
Unemployment at 35%
Inflation is close to 30%
Millions of Ukrainians are refugees in other countries

(source: AP)
THREE IMMEDIATE CHALLENGES FOR MACROECONOMY

- Energy
- Fiscal deficits
- External imbalance
NIGHT LIGHT INTENSITY

Russia annexed Crimea in 2014

Source: Nasa, 24 November
New business registrations, thousands

Number of UZ tickets sold per week, thousands

(source: National Bank of Ukraine)
Huge fiscal deficit: ~ $3-5 bn per month
FISCAL POLICY

Main State budget indicators*, UAH bn

State budget balance financing**, UAH bn

* Dotted and patterned fillings show relevant indicators excluding grants. ** Debt transactions are net borrowings.

November – preliminary and high-frequency data from the MFU website. NBU calculations based on the MoF’s website information. Source: Treasury, MoF, NBU staff estimates

Cover fiscal needs: 1/3 taxes, 1/3 external aid, 1/3 seigniorage (printing money)
INFLATION

Fiscal dominance ⇒ Printing money ⇒ Inflation ↑
MONETARY POLICY

Exchange rates UAH/ USD*

- Purchase on the cash market
- Selling on the cash market
- Official exchange rate
- Purchase on the gray market
- Selling on the gray market

18.0% 10.0% 28.5%
EXTERNAL BALANCE

- Fundamental problem: Ukraine can’t physically export its main products

Status of Ukrainian ports

Source: MinAgro, uawarinfographics.
EXTERNAL BALANCE

- Fundamental problem: Ukraine can’t physically export its main products

Export growth
Fundamental problem: Ukraine can’t physically export its main products and has to import to sustain the war effort.

**EXTERNAL BALANCE**

- Export growth
- Energy import
EXTERNAL BALANCE

- Fundamental problem: Ukraine can’t physically export its main products and has to import to sustain the war effort
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**Current account balance, USD bn**

**Merchandise trade**

- Current account balance
- Merchandise trade balance, USD bn
- Exports, % yoy (RHS)
- Imports, % yoy (RHS)
EXTERNAL BALANCE

- Fundamental problem: Ukraine can’t physically export its main products and has to import to sustain the war effort.

- Help exports (“grain deal”), restrict imports, maintain capital controls, standstill on public debt payments.

- (Future) Managed float for the exchange rate to allow market forces to make the adjustment.

![Current account balance, USD bn](chart1.png)

![Merchandise trade](chart2.png)
**Solution: Economic Aid to Ukraine**

**Composition of aid**
- United States
- EU Institutions
- United Kingdom
- Canada
- Germany
- Norway
- Poland
- France
- Japan
- Austria
- Italy
- Netherlands
- Sweden
- Portugal
- Spain
- Finland
- Denmark
- Latvia
- Taiwan

Each bar represents aid in billion Euros. The blue bars indicate Loans, and the gray bars indicate Guarantees. The red bars indicate Central bank swap line.

*Includes bilateral commitments to Ukraine. Does not include private donations, support for refugees outside of Ukraine, and aid by international organisations. EU Institutions includes commitments by EU (Commission and Council), MFA, and the European Investment Bank.*

**Commitments vs. Disbursements**
- United States
- EU Institutions (MFA and EIB)
- Canada
- United Kingdom
- Germany
- Norway
- France
- Japan
- Italy
- Netherlands
- Portugal
- Sweden
- Spain
- Finland
- Austria
- Denmark
- Latvia
- Lithuania

Each bar represents aid in billion Euros. The blue bars indicate Commitments (committed Loans and Grants), and the dark blue bars indicate Disbursements.

*The figure differs from Financial commitments in that we only count budgetary support rather than all types of financial aid. Information on disbursement are disclosed by the Ukrainian government. Does not contain financial aid by international organisation, private donations, or aid for refugees.*
CONCLUDING REMARKS

- We hope that RUS will be defeated soon but UKR (& everybody else) should prepare for a long haul.
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- Marathon of this potential war of attrition means tough decisions and many sacrifices
  - Prudence and caution in public finances
  - Durable nominal anchor
  - Resilient financial system
  - Careful management of external balances
  - Flexible and efficient allocation of scarce resources
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- The Russian invasion is a massive threat to global security.
  - Ukraine’s very survival—and Europe’s future—is at stake.
  - Need extraordinary support from Ukraine’s international partners.
  - Economic and military aid to Ukraine is the best investment in peace.